

TOWARDS INTEGRATED REPORTING

Communicating Value in the 21st Century



INTEGRATED REPORTING <IR>

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MANAGEMENT COMMENTARY

GOVERNANCE AND REMUNERATION REPORTING

www.theiirc.org

FINANCIAL STATEMENTS

SUSTAINABILITY REPORTING

The International Integrated Reporting Committee (IIRC) has brought together world leaders from the corporate, investment, accounting, securities, regulatory, academic, civil society and standard-setting sectors to develop a new approach to reporting.

This approach, Integrated Reporting, will meet the needs of the 21st century. It builds on the foundations of financial, management commentary, governance and remuneration, and sustainability reporting in a way that reflects their interdependence.

The IIRC aims to forge a global consensus on the direction in which reporting needs to evolve, creating a framework for reporting that is better able to accommodate complexity, and, in so doing, brings together the different strands of reporting into a coherent, integrated whole.

This Discussion Paper considers the rationale behind the move towards Integrated Reporting, offers initial proposals for the development of an International Integrated Reporting Framework and outlines the next steps towards its creation and adoption, including the publication of an Exposure Draft in 2012. Its purpose is to prompt input from all those with a stake in improved reporting, including both producers and users of reports.

Your answers to the Consultation Questions in this Discussion Paper, and any other comments you would like to make, will be important to us in refining these proposals. They should be submitted to dresponses@theiirc.org or online at www.theiirc.org. Please identify in your response the organization to which you belong and where it is located. All comments received will be considered a matter of public record and will be posted on www.theiirc.org.

Comments should be submitted by Wednesday 14th December 2011.

You can register at www.theiirc.org to be notified when additional information is published, when regional roundtables or webinars are held or for information about the IIRC Pilot Programme.

INTEGRATED REPORTING 

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SUMMARY

The development of Integrated Reporting is designed to enhance and consolidate existing reporting practices...to move towards a reporting framework that provides the information needed to assess organizational value in the 21st century.

What is Integrated Reporting?

Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value.

An Integrated Report should be an organization's primary reporting vehicle.

Why do We Need Integrated Reporting?

Since the current business reporting model was designed, there have been major changes in the way business is conducted, how business creates value and the context in which business operates. These changes are interdependent and reflect trends such as:

- globalization,
- growing policy activity around the world in response to financial, governance and other crises,
- heightened expectations of corporate transparency and accountability,
- actual and prospective resource scarcity,
- population growth, and
- environmental concerns.

Against this background, the type of information that is needed to assess the past and current performance of organizations and their future resilience is much wider than is provided for by the existing business reporting model. While there has been an increase in the information provided, key disclosure gaps remain.

Reports are already long and are getting longer. But, because reporting has evolved in separate, disconnected strands, critical interdependencies between strategy, governance, operations and financial and non-financial performance are not made clear. To provide for the growing demand for a broad information set from markets, regulators and civil society, a framework is needed that can support the future development of reporting,

reflecting this growing complexity. Such a framework needs to bring together the diverse but currently disconnected strands of reporting into a coherent, integrated whole, and demonstrate an organization's ability to create value now and in the future.

International differences in reporting

Reporting requirements have evolved separately, and differently, in various jurisdictions. This has significantly increased the compliance burden for the growing number of organizations that report in more than one jurisdiction and makes it difficult to compare the performance of organizations across jurisdictions.

The benefits of Integrated Reporting

Research has shown that reporting influences behaviour. Integrated Reporting results in a broader explanation of performance than traditional reporting. It makes visible an organization's use of and dependence on different resources and relationships or "capitals" (financial, manufactured, human, intellectual, natural and social), and the organization's access to and impact on them. Reporting this information is critical to:

- a meaningful assessment of the long-term viability of the organization's business model and strategy;
- meeting the information needs of investors and other stakeholders; and
- ultimately, the effective allocation of scarce resources.

An International Framework

The IIRC is developing an International Integrated Reporting Framework that will facilitate the development of reporting over the coming decades. The core objective of the Framework is to guide organizations on communicating the broad set of information needed by investors and other stakeholders to assess the organization's long-term prospects in a clear, concise, connected and comparable format. This will enable those organizations, their investors and others to make better short- and long-term decisions.

The initial focus is on reporting by larger companies and on the needs of their investors. The Framework will help to elicit consistent reporting by organizations, provide broad parameters for policy-makers and regulators and provide a focus for harmonizing reporting standards.

The building blocks

Five Guiding Principles underpin the preparation of an Integrated Report.

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

These Principles should be applied in determining the content of an Integrated Report, based on the key Content Elements summarized below. The presentation of the Elements should make the interconnections between them apparent.

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook

Who is the IIRC?

The International Integrated Reporting Committee (IIRC) is an international cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic, civil society and standard-setting sectors. See page 28 for a list of members.

Future Direction

The development of Integrated Reporting is designed to enhance and consolidate existing reporting practices and, through collaboration, consultation and experimentation, to move towards a reporting framework that provides the information needed to assess organizational value in the 21st century. The next steps that the IIRC will take in this direction are listed below.

- Undertake a Pilot Programme to encourage experimentation and innovation among companies and investors.
- Develop an International Integrated Reporting Framework Exposure Draft, reflecting responses received to this Discussion Paper and the experience gained from the first year of the Pilot Programme.
- Work with others to support the development of emerging measurement and reporting practices relevant to Integrated Reporting.
- Raise awareness among investors and other stakeholders and encourage organizations to adopt and contribute to the evolution of Integrated Reporting.
- Explore opportunities for harmonizing reporting requirements within and across jurisdictions.
- Develop institutional arrangements for the ongoing governance of Integrated Reporting.

Your Comments Requested

Please join us in this unique effort to develop an overarching International Integrated Reporting Framework by providing feedback on this Discussion Paper. Your answers to the Consultation Questions in this Discussion Paper, and any other comments you would like to make, should be submitted to dresponses@theiirc.org or online at www.theiirc.org. For the purpose of analysis, you are asked to identify the organization to which you belong and where it is located. All comments received will be considered a matter of public record and will be posted on www.theiirc.org.

Comments should be submitted by Wednesday 14th December 2011.

THE WORLD HAS CHANGED – REPORTING MUST TOO

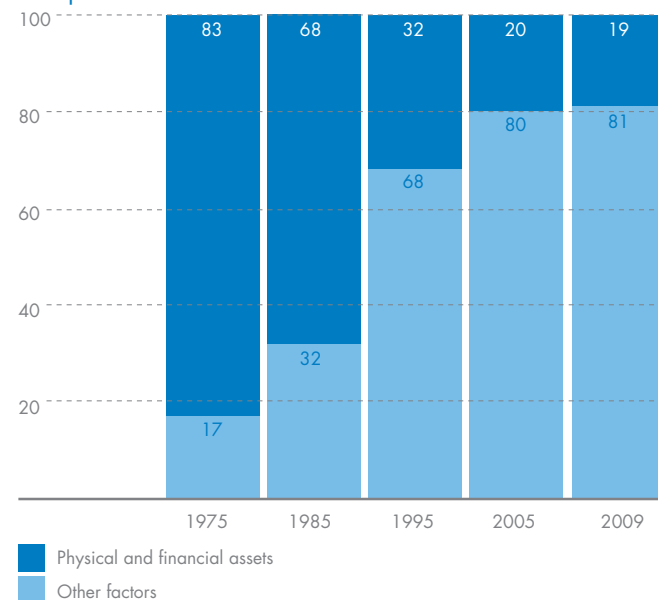
While the architecture necessary to support changing information needs is developing, many currently perceive a reporting landscape of confusion, clutter and fragmentation.

The world has changed due to globalization and resulting interdependencies in economies and supply chains, advances in technology, rapid population growth and increasing global consumption. This has had a significant impact on the quality, availability and price of resources, including water, food and energy. It also puts increasing pressure on ecosystems that are essential to the economy and society.

This has political, social and commercial implications. Businesses are being forced to react to these changes in order to remain successful and, in many cases, are developing new business models that recognize the need to innovate and do more with less.

The need for a broader information set is clearly demonstrated by the small percentage of market value now explained by physical and financial assets – down to only 19% in 2009 from 83% in 1975. The remainder represents intangible factors, some of which are explained within financial statements, but many of which are not.¹

Components of S&P 500 market value



The percentage of market value represented by physical and financial assets versus intangible factors, some of which are explained within financial statements, but many of which are not.¹

Reporting needs to keep pace. The traditional reporting model was developed for an industrial world. Although it continues to play a valuable role with respect to stewardship of financial capital, it nonetheless focuses on a relatively narrow account of historical financial performance and of the value-creation process.

As business has become more complex and gaps in traditional reporting have become prominent, new reporting requirements have been added through a patchwork of laws, regulations, standards, codes, guidance and stock exchange listing requirements. This has led to an increase in the information provided through:

- longer and more complex financial reports and management commentaries;²
- increased reporting on governance and remuneration; and
- standalone sustainability reporting³ which has also evolved rapidly over the past decade.

These developments, led by policy-makers, companies and other reporting organizations, investors and civil society, are welcome reactions designed to elicit the information needed in a changing world. However, while the architecture necessary to support changing information needs is developing, many currently perceive a reporting landscape of confusion, clutter and fragmentation. Much of the information now provided is disconnected and key disclosure gaps remain.

As a result, although there is evidence that investors recognize the materiality of non-financial factors, they do not feel that the information they have available is adequate for decision-making.⁴ For example, while there is management recognition that sustainability issues should be fully integrated into the strategy and operations of a company (with 96% of CEOs from the world's largest companies expressing this opinion⁵), only 21% of listed companies report any sustainability information based on Bloomberg research.⁶

It is not enough to keep on adding more information – the connections need to be made clear and the clutter needs to be removed. Corporate reports are already long and, in many cases, they are getting longer. Length and excessive detail can obscure critical information rather than aid understanding.⁷ Only the most material information should be included in the Integrated Report.

Key points in this section

- The world has changed. Reporting needs to keep pace.
- While reporting has expanded and evolved, it has also become increasingly complex. Critical interdependencies are not brought to light and disclosure gaps remain.
- It is not enough to keep on adding more information. The connections need to be made clear and the clutter needs to be removed. Only the most material information should be included in the Integrated Report.
- Coordinated, international action is needed now.
- The IIRC has brought together key organizations in response.

For many organizations, reporting is seen as a legal compliance process, rather than as a process for communicating what matters. Furthermore, different strands of reporting have tended to evolve separately, with additional requirements and information requests being bolted on to the existing model, rather than being integrated into it. The pressure to keep adding more continues to grow.

This has created a complex and overlapping set of disconnected disclosures. As a result, critical interdependencies that exist are not made clear, for example, between:

- strategy and risk,
- financial and non-financial performance,
- governance and performance, and
- the organization's own performance and that of others in its value chain.

Coordinated, international action is needed now.

The information available to management, investors and other stakeholders, and the way in which it is presented, have a fundamental impact on decision-making. The time has come to step back and rethink what information is needed to provide a clear, concise picture of performance, impacts and interdependencies. Such a picture must:

- drive innovation,
- be focused on communication and not just compliance, and
- support resource allocation decisions that are consistent with sustained value creation and with long-term economic stability.

In an increasingly global marketplace, comparability is important. Reporting requirements have evolved separately, and differently, in various jurisdictions. This has increased the reporting and administrative burden for the growing number of organizations that report in more than one jurisdiction. It has also resulted in diverging disclosure practices that inhibit investors and others from understanding and comparing the information they need for decision-making.

In the context of financial reporting, international convergence has been recognized as important, and progress has been made towards international standards, for example, through the current work on the convergence of International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (U.S. GAAP). Nevertheless, many other aspects of reporting continue to be governed by national or regional laws, regulations and stock exchange listing requirements, and by a mixture of mandatory and voluntary standards, codes and guidance.

The IIRC has brought together key organizations in response. The IIRC was established in 2010 in recognition of the need to move towards an International Integrated Reporting Framework that is fit-for-purpose for the 21st century.

The IIRC seeks to build upon, enhance and support the work that has been done to date, and is ongoing, to achieve a reporting framework that:

- communicates the organization's strategy, business model, performance and plans against the background of the context in which it operates;
- provides a coherent framework within which market and regulatory driven reporting requirements can be integrated;
- is internationally agreed, so as to encourage convergence of approach and hence more ready understanding of information presented;
- reflects the use of and effect on all of the resources and relationships or "capitals" (human, natural and social as well as financial, manufactured and intellectual) on which the organization and society depend for prosperity; and
- reflects and communicates the interdependencies between the success of the organization and the value it creates for investors, employees, customers and, more broadly, society.

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

(b) Do you agree that this action should be international in scope? Why/why not?

TOWARDS INTEGRATED REPORTING

Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization creates value, now and in the future.

Integrated Reporting Defined

Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly:

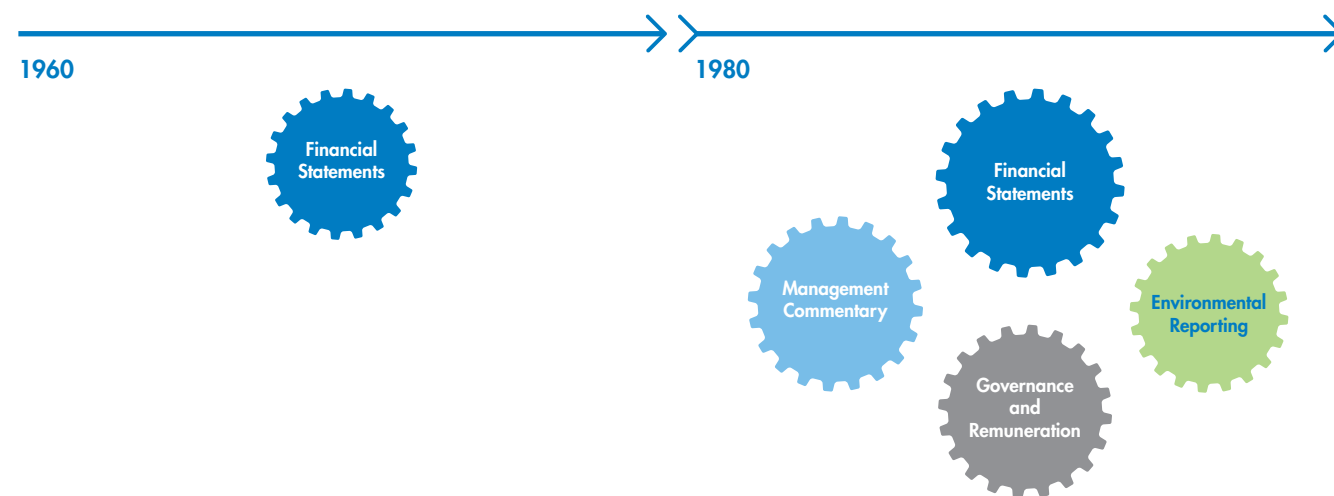
- shows the connectivity between them; and
- explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.

Integrated Reporting reflects what can be called "integrated thinking" – application of the collective mind of those charged with governance (the board of directors or equivalent), and the ability of management, to monitor, manage and communicate the full complexity of the value-creation process, and how this

contributes to success over time. It will increasingly be through this process of "integrated thinking" that organizations are able to create and sustain value. The effective communication of this process can help investors, and other stakeholders, to understand not only an organization's past and current performance, but also its future resilience.

The main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization's primary report, replacing rather than adding to existing requirements. Such a report enables evolving reporting requirements, both market-driven and regulatory, to be organized into a coherent narrative. An Integrated Report provides a clear reference point for other communications, including any specific compliance information, such as investor presentations, detailed financial information, operational data and sustainability information. Much of this information might move to an online environment, reducing clutter in the primary report, which will focus only on the matters that the organization considers most material to long-term success.

The evolution of corporate reporting



Q2. Do you agree with the above definition of Integrated Reporting? Why/why not?

Key points in this section

- Integrated Reporting combines the different strands of reporting (financial, management commentary, governance and remuneration, and sustainability reporting) into a coherent whole that explains an organization's ability to create and sustain value.
- The main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization's primary report.
- Integrated Reporting can reduce the reporting burden on organizations while improving investors', and other stakeholders', insight and understanding.
- Integrated Reporting reflects and builds upon existing developments in reporting.

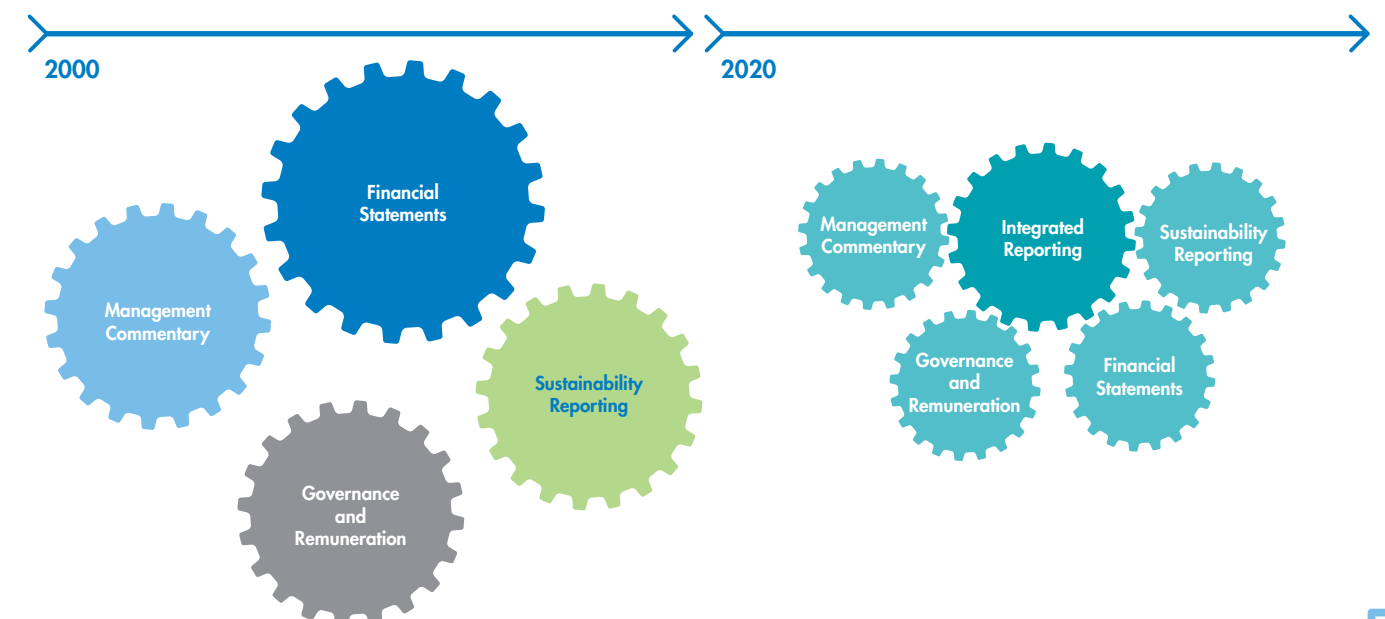
Building on Developments to Date

Integrated Reporting reflects and builds upon existing developments in reporting, including the following.

- The ongoing international convergence of accounting standards through the collaborative efforts of the International Accounting Standards Board (IASB) and the U.S.-based Financial Accounting Standards Board (FASB) to improve both IFRS and U.S. GAAP, and to eliminate the differences between them.
- The work of The Prince's Accounting for Sustainability Project, the Global Reporting Initiative, the World Business Council for Sustainable Development, the World Resources Institute, the World Intellectual Capital Initiative, the Carbon Disclosure Project, the Climate Disclosure Standards Board, the European Federation of Financial Analysts, the United Nations (UN) Conference on Trade and Development, the UN Global Compact, the International Corporate Governance Network, the Collaborative Venture on Valuing Non-Financial Performance, and many others to develop principles, methodologies, guidelines and standards for the accounting and reporting of non-financial information.

- The publication during 2010 and 2011 of:
 - the IFRS Practice Statement, "Management Commentary", an international framework for narrative reporting to provide a context for interpreting an organization's financial position, financial performance and cash flows;
 - the Integrated Reporting Committee of South Africa's Discussion Paper, "Framework for Integrated Reporting and the Integrated Report";
 - the Global Reporting Initiative's "G3.1" Sustainability Reporting Guidelines, and its current project to develop a fourth generation of Guidelines over the coming two years; and
 - the International Auditing and Assurance Standards Board's Discussion Paper, "The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications".

The IIRC aims to forge a global consensus on the direction in which reporting needs to evolve, creating a framework for reporting that is better able to accommodate complexity and, in so doing, brings together the different strands of reporting into a coherent, integrated whole. All of the organizations referred to above are part of, or collaborating closely with, the IIRC to achieve this aim.



AN INTERNATIONAL INTEGRATED REPORTING FRAMEWORK

The Framework will provide high-level guidance to organizations that prepare Integrated Reports, helping to provide consistency of content and approach in a way that demonstrates the extent to which integrated thinking is occurring within the organization.

Key points in this section

- The IIRC is developing a Framework to support the future development of reporting.
- The Framework will help ensure consistent reporting by organizations, will provide broad parameters for policy-makers and regulators, and will be a focus for harmonizing reporting standards.
- The initial focus is on reporting by larger companies and on the needs of their investors.
- An organization's business model and its ability to create and sustain value in the short, medium and long term are central themes of the Framework, which includes Guiding Principles and Content Elements.
- Integrated Reporting results in a broader explanation of performance than traditional reporting.
- It makes visible how the organization uses different capitals (financial, manufactured, human, intellectual, natural and social), its impact on them, and their interdependence.

The aim of the International Integrated Reporting Framework is to support the development of reporting over the coming decades, centred on how an organization creates and sustains value.

This section outlines initial proposals for the development of the Framework, setting out concepts, principles and key elements around which it can be built. These proposals offer a starting point for discussion, rather than a complete Framework. An Exposure Draft of the Framework is planned for release in 2012. During the comment period for this Discussion Paper, interim guidance material will be made available on the IIRC website. This material will be built upon as further experience is obtained through the IIRC Pilot Programme (see page 24).

The Framework will provide high-level guidance to organizations that prepare Integrated Reports, helping to provide consistency of content and approach in a way that demonstrates the extent to which integrated thinking is occurring within the organization. It will also provide policy-makers and regulators with broad parameters within which consistent regulatory reporting regimes can be developed across different jurisdictions. The Framework will be a focal point for the harmonization of current standards.

The initial focus is on reporting by larger companies. However, the IIRC expects that the concepts underlying Integrated Reporting will be equally applicable to small- and medium-sized enterprises, the public sector and not-for-profit organizations.

Integrated Reports will meet the needs of a broad range of stakeholders. Initially, however, the IIRC intends to focus the development of the Framework on the needs of investors (providers of debt and equity), consistent with the current duties of those charged with governance in many jurisdictions.

The following pages include:

- a summary of the key differences between Integrated Reporting and traditional reporting;
- a discussion of the central importance of an organization's business model and of value creation;
- guiding principles for developing an Integrated Report; and
- content elements that describe the core information to be included in an Integrated Report.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/ why not?

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

How is Integrated Reporting Different?

Thinking	Isolated >> Integrated
	Because traditional reporting occurs in silos, it encourages thinking in silos. Integrated Reporting, on the other hand, reflects, and supports, integrated thinking – monitoring, managing and communicating the full complexity of the value creation process and how this contributes to success over time. Integrated Reporting demonstrates the extent to which integrated thinking is occurring within the organization.
Stewardship	Financial capital >> All forms of capital
	An Integrated Report displays an organization's stewardship not only of financial capital, but also of the other "capitals" (manufactured, human, intellectual, natural and social), their interdependence and how they contribute to success. This broader perspective requires consideration of resource usage and risks and opportunities along the organization's full value chain.
Focus	Past, financial >> Past and future, connected, strategic
	Annual reporting at present is largely focused on past financial performance and financial risks. Other reports and communications may cover other resources and relationships, but they are seldom presented in a connected way, or linked to the organization's strategic objectives and its ability to create and sustain value in the future.
Timeframe	Short term >> Short, medium and long term
	Much of the media and regulatory attention in response to the global financial crisis has focused on "short-termism" as one contributory factor. Although short-term considerations are important in many ways, placing them in context is also essential. Integrated Reporting specifically factors in short-, medium- and long-term considerations.
Trust	Narrow disclosures >> Greater transparency
	Financial reporting focuses primarily on a narrow series of mandated disclosures. Although an increasing number of organizations are improving their transparency, for example, through voluntary sustainability reporting, in absolute terms that number is still low. By emphasizing transparency, for example, covering a broader range of issues and disclosing the positive with the negative, Integrated Reporting helps to build trust.
Adaptive	Rule bound >> Responsive to individual circumstances
	Today's reporting is often said to be too compliance orientated, reducing the scope for organizations to exercise an appropriate amount of judgement. While a certain level of compliance orientation is necessary to ensure consistency and enable comparison, Integrated Reporting offers a principles-based approach that drives greater focus on factors that are material to particular sectors and organizations. It permits an organization to disclose its unique situation in clear and understandable language.
Concise	Long and complex >> Concise and material
	Long and complex reports are often impenetrable for many readers. A key objective for Integrated Reporting is to de-clutter the primary report so that it covers, concisely, only the most material information.
Technology enabled	Paper based >> Technology enabled
	While the internet and XBRL are introducing elements of technological innovation, many corporate reports are still presented as if they were entirely paper based. Integrated Reporting takes advantage of new and emerging technologies to link information within the primary report and to facilitate access to further detail online where that is appropriate.

An International Integrated Reporting Framework (continued)

Business Model and Value Creation

Central to Integrated Reporting is the organization's business model. There is no single, generally accepted definition of the term "business model". However, it is often seen as the process by which an organization seeks to create and sustain value.

An organization determines its business model through choices that typically recognize that value is not created by or within the organization alone, but is:

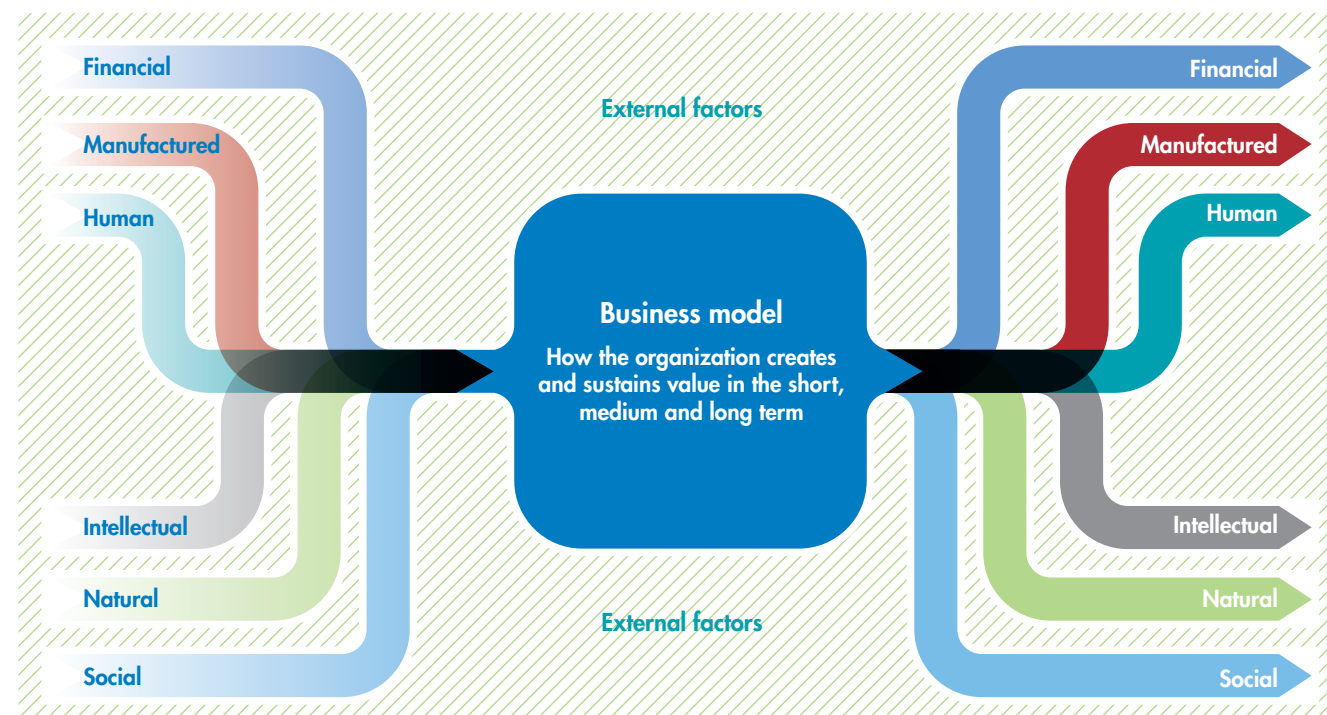
- influenced by external factors (including economic conditions, societal issues and technological change) that present risks and opportunities, which create the context within which the organization operates,
- co-created through relationships with others (including employees, partners, networks, suppliers and customers), and
- dependent on the availability, affordability, quality and management of various resources, or "capitals" (financial, manufactured, human, intellectual, natural and social).

Integrated Reporting therefore aims to provide insights about:

- significant external factors that affect an organization,
- the resources and relationships used and affected by the organization, and
- how the organization's business model interacts with external factors and resources and relationships to create and sustain value over time.

By describing, and measuring where it is practicable, the material components of value creation and, importantly, the relationships between them, Integrated Reporting results in a broader explanation of performance than traditional reporting. In particular, it makes visible all the relevant capitals on which performance (past, present and future) depends, how the organization uses those capitals, and its impact on them, as illustrated by the diagram below. This information is critical to the effective allocation of scarce resources. It will provide a meaningful presentation of the organization's prospects for long term resilience and success, and facilitate the informational needs of, and assessments by, investors and other stakeholders.

Importantly, a reporting framework centred around an organization's business model provides a better basis for management to explain what really matters, bringing reporting closer to the way the business is run.



Resources and relationships or "capitals"

All organizations depend on a variety of resources and relationships for their success. The extent to which organizations are running them down or building them up has an important impact on the availability of the resources and the strength of the relationships that support the long-term viability of those organizations. These resources and relationships can be conceived as different forms of "capital".

The purpose of the following categorization and descriptions, based on various sources and established models,⁸ is to help readers understand the concepts underlying this Discussion Paper; it is not intended to be the only way the capitals can be categorized or described. The extent to which different organizations use or impact each of these capitals varies: not all capitals are equally relevant or applicable to all organizations.

Financial capital: The pool of funds that is:

- available to the organization for use in the production of goods or the provision of services, and
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Manufactured capital: Manufactured physical objects (as distinct from natural physical objects) that are available to the organization for use in the production of goods or the provision of services, including:

- buildings,
- equipment, and
- infrastructure (such as roads, ports, bridges and waste and water treatment plants).

Human capital: People's skills and experience, and their motivations to innovate, including their:

- alignment with and support of the organization's governance framework and ethical values such as its recognition of human rights,

- ability to understand and implement an organization's strategies, and
- loyalties and motivations for improving processes, goods and services, including their ability to lead and to collaborate.

Intellectual capital: Intangibles that provide competitive advantage, including:

- intellectual property, such as patents, copyrights, software and organizational systems, procedures and protocols, and
- the intangibles that are associated with the brand and reputation that an organization has developed.

Natural capital: Natural capital is an input to the production of goods or the provision of services. An organization's activities also impact, positively or negatively, on natural capital. It includes:

- water, land, minerals and forests, and
- biodiversity and eco-system health.

Social capital: The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. Social capital includes:

- common values and behaviours,
- key relationships, and the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers and business partners, and
- an organization's social licence to operate.

Q5. Are: (a) the organization's business model, and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

An International Integrated Reporting Framework (continued)

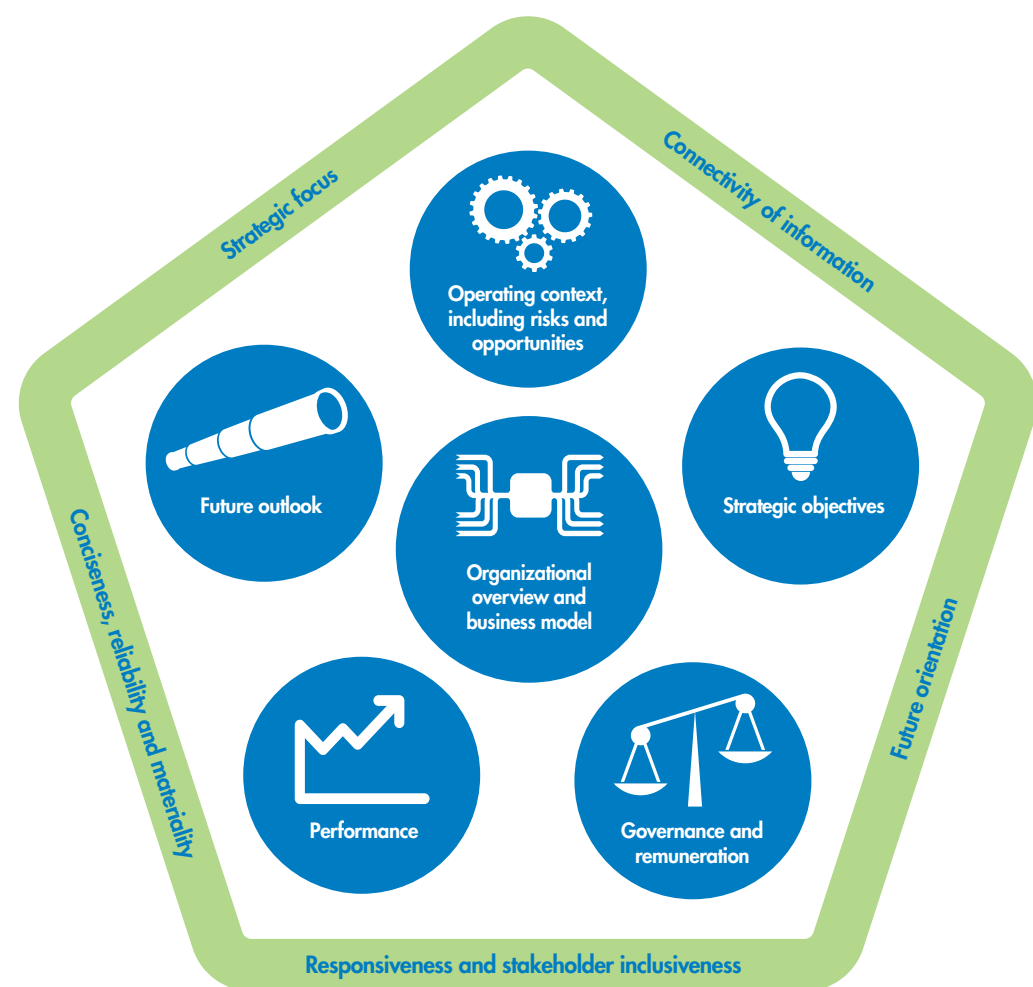
The Building Blocks

Guiding Principles – Five guiding principles underpin the preparation of an Integrated Report (see page 13).

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

Content Elements – The principles should be applied in determining the content of an Integrated Report, based on the key elements summarized below. The presentation of the elements should make the interconnections between them apparent (see page 14 – 15).

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook



Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Guiding Principles

The following guiding principles underpin the preparation of an Integrated Report, informing the content of the report and how information is presented.

Strategic focus: *An Integrated Report provides insight into the organization's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organization depends.*

An Integrated Report communicates what is important to the organization from a strategic perspective. It outlines:

- the organization's strategic objectives;
- the strategies it has in place, or plans to implement, in order to achieve them; and
- how they relate to other components of its business model.

This may include, for example, highlighting significant new opportunities, risks and dependencies that flow from the organization's market position, strategies and business model.

It also clearly articulates how the organization uses resources and relationships. This includes reporting on financial, manufactured, human, intellectual, natural and social capital to the extent each contributes materially to the organization's ability to create and sustain value.

Connectivity of information: *An Integrated Report shows the connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its performance depend.*

Connectivity is central to ensuring that an Integrated Report:

- illuminates the changing nature of business decision-making, and the critical linkages in business thinking and activity; and
- helps to break down established silos in the way information is reported, and the traditional focus primarily on financial matters.

Examples of connectivity include:

- information about how changes in the market environment impact strategy;
- links between the different elements in the organization's market analysis and its assessment and explanation of risk; and
- how strategies link to key performance indicators (KPIs), key risk indicators (KRIs) and remuneration.

Importantly, an Integrated Report clearly presents the linkage between financial performance and the organization's use of, and impact on, the significant resources and relationships upon which it depends.

Future orientation: *An Integrated Report includes management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.*

Future orientation includes:

- how the organization balances short- and long-term interests;
- where the organization expects it will go over time;
- how it plans to get there; and
- what the critical enablers, challenges and barriers may be along the way.

This involves analyzing:

- how sustainable the organization's business model is;
- the relationship between past and future performance; and
- the factors that may change that relationship, for example, whether the organization will be able to access the resources it needs at a price it can afford.

An Integrated Report may include targets, forecasts, projections, estimates and sensitivity analyses.

Responsiveness and stakeholder inclusiveness: *An Integrated Report provides insight into the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.*

Integrated Reporting emphasizes the importance of relationships with the organization's stakeholders.

Stakeholders provide useful insights about matters that are important to them, including economic, environmental and social issues. This assists the organization to:

- identify material issues;
- develop and evaluate strategies; and
- manage activities, including strategic and accountable responses to material issues.

An Integrated Report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing:

- the nature and quality of the organization's relationships with key stakeholders, such as customers, suppliers, employees and local communities; and
- how their issues are understood, taken into account and responded to.

Conciseness, reliability and materiality: *An Integrated Report provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.*

Senior management and those charged with governance must exercise judgement in:

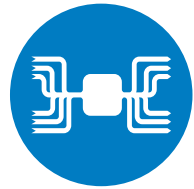
- distinguishing between information that is material and should therefore be included in the Integrated Report, and other information that may be relatively static or only relevant to some report users; conciseness is enhanced when the latter is included separately on the organization's website or in other forms of communication; and
- deciding whether information is sufficiently reliable to be included in an Integrated Report.

While reliable information needs to be complete, neutral and free from error, it is recognized that this is seldom, if ever, achievable in every respect, so the objective is to maximize these qualities to the extent practicable, for example, by ensuring that any negative issues are as faithfully reported as positive ones. Reliability also encompasses the need for information to be comparable between organizations and consistent for the same organization over time. Reliability is enhanced by mechanisms such as robust stakeholder engagement and independent, external assurance.

An International Integrated Reporting Framework (continued)

Content Elements

An Integrated Report includes the following Content Elements, answering the respective question posed for each. These elements are fundamentally linked to each other and are presented in the Integrated Report in a way that makes the interconnections between them apparent, rather than as isolated, standalone sections. Explanations of material changes since prior reporting periods are particularly important.



Organizational overview and business model: *What does the organization do and how does it create and sustain value in the short, medium and long term?*

The Integrated Report provides essential context by identifying:

- the organization's mission, principal activities, markets, products and services;
- its business model, value drivers and critical stakeholder dependencies; and
- its attitude to risk.



Operating context, including risks and opportunities: *What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?*

To provide context, an Integrated Report identifies:

- the commercial, social and environmental context within which the organization operates, including significant laws and regulations that affect the organization's ability to create and sustain value in the short, medium and long term;
- the resources and relationships that are key to the organization's success, including key stakeholders, their legitimate needs, interests and expectations, and their importance to the organization; and
- the organization's key risks and opportunities, including those that relate to its relationships and

to its impact on, and the continued availability, quality and affordability of, relevant resources.

This Content Element builds on the high-level overview of the organization and includes:

- a more in-depth description of material issues;
- the organization's process for determining which issues it considers material; and
- how the material issues affect the organization's ability to create and sustain value over time (e.g., how the organization integrates key emerging or escalating risks and opportunities into its strategies).



Strategic objectives and strategies to achieve those objectives: *Where does the organization want to go and how is it going to get there?*

An Integrated Report describes the organization's strategic objectives and its strategies to achieve those objectives. It sets out how the organization will measure achievement and target outcomes for the short, medium and long term.

This discussion builds on the description of the organizational overview and operating context to provide report users with an understanding of what drives and protects the value of the organization.

It identifies:

- risk management arrangements related to key resources and relationships;
- the linkage between strategies and other Content Elements; and
- what makes the organization unique and able to realize value in the future, such as the extent to which sustainability considerations have been embedded into its strategy to give it a competitive advantage.



Governance and remuneration: *What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration?*

An Integrated Report provides insight about the organization's oversight and tone at the top. It includes:

- an explanation of the organization's leadership and strategic decision-making processes, including the skill set of those charged with governance;
- what actions those charged with governance have taken to influence the strategic direction of the organization, including its culture, ethical values and relationships with key stakeholders; and
- how the remuneration of executives and those charged with governance is linked to performance in the short, medium and long term, including how it is linked to the organization's use of and impact on the resources and relationships on which it depends.



Performance: *How has the organization performed against its strategic objectives and related strategies?*

An Integrated Report includes qualitative and quantitative information, including:

- KPIs and KRIs regarding the organization's performance against its strategic objectives and related strategies;
- the organization's impacts (both positive and negative) on the resources and relationships on which it depends;
- the significant external factors impacting performance; and
- how the organization fared against its targets.

Information regarding financial performance is integrated with information regarding performance with respect to the other capitals. The discussion also encompasses how innovation affects the ability of the organization to create and sustain value.

Performance information includes a description of the organization's view of its major external economic, environmental and social impacts and risks up and down the value chain, along with material quantitative information to the extent practicable.

While other reports and communications (such as financial statements, a sustainability report or detailed website disclosures) may be referenced or linked for those report users who want additional detail on various aspects of performance, the performance discussion in an Integrated Report is considerably more concise and connected. The linkages between past and current performance and between current performance and future outlook should be made clear.



Future outlook: *What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?*

Future outlook builds on other Content Elements to highlight anticipated changes over time. It provides information, built on sound and transparent analysis, about:

- how the organization is currently equipped to respond to the operating context that it is likely to face in the future,
- how the organization balances short- and long-term interests,
- potential repercussions of where the organization expects it will go in the short, medium and long term,
- the actions needed to get there, and
- the associated uncertainties.

The Integrated Report should identify any real risks that could have extreme consequences, even though the probability of their occurrence might be considered quite small.

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

Towards Integrated Reporting – Innovation in Action

Many organizations are taking innovative approaches to aspects of reporting that are often consistent with the concept of Integrated Reporting. Few organizations, if any, however, could claim to have achieved the ideal of Integrated Reporting. Presented on pages 16 – 19 is a small selection of examples of current innovation. These might not be “perfect” illustrations of all aspects of the Framework in this document and are not intended

to provide definitive guidance; rather, they are presented here to illustrate reporting innovation in the particular circumstances of an organization that might be regarded as “good practice” at present. The IIRC Pilot Programme will provide further opportunity for experimentation to inform the development of the Framework, and the IIRC also encourages contributions by other organizations of innovative examples of good practice.

AkzoNobel Report 2010 pp 52 – 53

http://www.akzonobel.com/news/reports/2010/annual_report_2010.aspx

These pages provide a concise overview of the business, including how it creates value, key market and business characteristics, external factors that affect value creation and the role of innovation. They describe key developments during

the period and provide a range of financial and non-financial performance indicators, seeking to demonstrate financial value generated through responses to global market drivers.

Concise overview of external context

Global market drivers and development

- Growing populations and GDP growth
- Activity of residential and commercial new and home sales
- Global increase in importance of home and interior decoration
- Rise of middle class in high growth markets
- Legislative/regulatory pressures on environmental health issues (VOC, REACH) driving innovation
- Increasing importance of large-scale commercial projects
- Growth of importance of women as decision-makers
- Increasing importance of internet

Key developments 2010

- Signed a deal with Walmart to become the retailer's primary paint supplier in the US
- Dulux Trade won contract to paint the London 2012 Olympic Games site
- Leading coatings supplier for the Commonwealth Games in India
- Signed a landmark agreement with the Forest Stewardship Council
- Let's Color campaign continued to gather momentum
- Presence in China increased to more than 600 cities

Key figures in € millions

	2009	2010
Revenue	4,010	4,200
Operating profit	1,100	1,150
EBITDA margin (%)	27.5	27.5
EBIT margin (%)	27.5	27.5
Operating income	1,100	1,150
Operating margin (%)	27.5	27.5
Operating profit	1,100	1,150
Operating margin (%)	27.5	27.5

Product: Eco-premium solutions % of revenue

Year	% of revenue
2007	15
2008	15
2009	22
2010	29

Key developments 2011

- Signed a deal with Walmart to become the retailer's primary paint supplier in the US
- Dulux Trade won contract to paint the London 2012 Olympic Games site
- Leading coatings supplier for the Commonwealth Games in India
- Signed a landmark agreement with the Forest Stewardship Council
- Let's Color campaign continued to gather momentum
- Presence in China increased to more than 600 cities

Succinct summary of key developments

Sasol Annual Review and Summarized Financial Information pp 4 – 5

http://www.sasol.com/sasol_internet/downloads/sasol_review_2010_1288356157307.pdf

These pages provide an easy to follow description and graphical representation of the company's business model, linking together key inputs, activities and outcomes, drivers of

future value such as innovation and research, as well as steps to respond to the changing business environment with some quantification in financial and non-financial terms.

Clear description of business model seeking to link inputs and outputs

Greenhouse gas (GHG) emissions

Coal is an important part of the world's energy mix, and we produce transportation fuels from coal and gas. However, to substantially reduce our carbon emissions by, among other things, more efficient production processes and investigating storage (CCS) solutions. We have set several targets to reduce our gas emissions intensity by 15% (on the 2005 baseline) by 2020, and we have spent R100 million (US\$11.1 million) on efficiency-related projects, which should achieve a reduction of 760 000 tons of GHG emissions a year.

New energy

Sasol New Energy Holdings (SNE) was created to focus on new technologies that can be integrated with our core technologies to reduce our GHG footprint. As part of our commitment to reduce our carbon footprint, SNE will look into and lower-carbon energy options such as solar, biofuels, as well as nuclear, hydro and natural gas.

Discussion of material issues that arise as a result of business activities, including targets and costs

Identification of strategic responses to changing business environment

Towards Integrated Reporting – Innovation in Action (continued)

BHP Billiton 2010 Annual Report pp 152 – 153

<http://www.bhpbilliton.com/home/investors/reports/Documents/bhpBillitonAnnualReport2010.pdf>

These pages show the linkage between key financial and non-financial drivers of strategy, remuneration policy and remuneration practice. This is reinforced through discussion of the linkages between remuneration and both risk and

performance, and includes quantification of remuneration practices and the alignment between remuneration and company performance.

Drivers of strategy

NON-FINANCIAL		FINANCIAL			
PEOPLE	LIFECYCLE TO OPERATE	WORLD-CLASS ASSETS	FINANCIAL STRENGTH AND DISCIPLINE	PROJECT PIPELINE	GROWTH OPTIONS

Explanation and quantification of alignment between remuneration and strategic objectives, both financial and non-financial

6 Remuneration Report continued

6.2.2 Strategic alignment
The Remuneration Committee recognises that we operate in a global environment and that our performance depends on the quality of our people. Remuneration is used to reinforce the Group's strategic objectives, and the committee links remuneration policy under regular review to ensure it is appropriate for the needs of the Group.

6.2.3 Risk alignment
The global financial crisis has heightened the focus on risk management within organisations, and in particular on remuneration frameworks that work to ensure executives take a long-term approach to decision-making – minimising actions that focus only on short-term results at the expense of long-term business growth and success.

6.2.4 Performance alignment
While the Board recognises that market forces necessarily influence remuneration practices, it strongly believes that the fundamental driver behind our remuneration structure is business performance. Accordingly, while target remuneration is structured to attract and retain executives, the amount of remuneration actually received is dependent on the achievement of superior business and individual performance and on generating sustained shareholder value.

Quantified demonstration of alignment between remuneration and company performance

Average STI reward for GMC members vs Basic Earnings per Share

Year	Basic EPS (US cents per share)	Average STI reward (US cents per share)
2006	~150	~150
2007	~200	~200
2008	~250	~250
2009	~150	~150
2010	~200	~200

6.2.3 Risk alignment
The global financial crisis has heightened the focus on risk management within organisations, and remuneration frameworks that work to ensure a long-term approach to decision-making that focus only on short-term results at the expense of long-term business growth and success.

The Remuneration Committee has considered risk management is reflected throughout the remuneration structure for all executives, and is satisfied that it reinforces the desired behaviours. This is largely a result of the Group's approach to STI and LTI rewards, which ensure a significant portion of remuneration is deferred and performance-linked.

Equity component of STI reward for GMC members vs performance

Explanation is reinforced through discussion of link with risk and performance

Anglo American Annual Report 2010 pp 14 – 15

<http://www.angloamerican.com/investors/reports/2011rep>

They pages give a snapshot of performance. They are structured so that the reader can easily see the link between key strategic objectives and performance, both financial

and non-financial. They explain how KPIs are calculated and include quantification of past results and targets for the future.

Strategic Elements

Strategic Elements	KPI Targets
Investing In world class assets in the most attractive commodities	Total shareholder return (TSR) Share price growth plus dividends reinvested over the performance period. A performance period of three years is used and TSR is calculated annually. Return on capital employed (ROCE) Total operating profit before impairments for the period divided by the average total capital less other investments and adjusted for impairments.
Organising Efficiently and effectively	Asset optimisation (AO) Sustainable operating profit benefit from optimised performance of the base of the core businesses.

Explicit link made between strategic aims and KPI targets

Performance Dashboard

Strategic Element	2009	2010	Target
Total shareholder return (TSR)	14.4%	34.8%	34.13
Return on capital employed (ROCE)	14.4%	24.8%	24.13
Asset optimisation (AO)	\$1.6 billion	\$1.6 billion	\$1 billion by 2011*
Energy consumption	102.1 million GJ	100.7 million GJ	100 million GJ total energy used by 2014
GHG emissions	19 Mt CO ₂ equivalent	20 Mt CO ₂ equivalent	10% intensity reduction by 2014
Water use	125.3 million m ³	115.2 million m ³	15% intensity reduction by 2014

Quantification of past and present performance data and future targets

Equity component of STI reward for GMC members vs performance

Includes an array of non-financial as well as financial KPIs

WHAT WILL INTEGRATED REPORTING MEAN FOR ME?

“Integrated Reporting and transparency is not only the right thing to do, but it has brought with it a broad range of business benefits, ranging from richer access to capital markets and identification of cost savings to an increase in employee engagement.”

Lord Sharman of Redlynch, Chairman, Aviva

Benefits and Challenges

The implications of Integrated Reporting will vary for different participants in the reporting supply chain depicted in the diagram below. This section of the Discussion Paper outlines the main benefits and challenges with respect to Integrated Reporting for reporting organizations, investors, policy-makers, regulators and standard-setters, and other stakeholders. The benefits of Integrated Reporting set out in this section are equally relevant to other key stakeholders such as customers, suppliers and governments who are increasingly demanding demonstration of a more integrated picture of performance as a prerequisite for doing business.



Alternative pathways to Integrated Reporting

While the IIRC anticipates that an Integrated Report will ultimately become the primary report for all organizations, individual organizations will follow different routes over different timeframes towards that end. All organizations will be bound by existing regulatory reporting requirements until these are changed, but this will affect them in different ways depending on the jurisdiction(s) and industry(ies) in which they operate. Alternative routes that organizations may follow include the following.

- Combining the sustainability report with the management commentary or the full annual report. While a combined report is not an Integrated Report, it can be a logical first step for some organizations as they explore opportunities to integrate the content of the two reports into a more concise form and build understanding of how performance in one area drives value in another.

- Publishing a concise, standalone, Integrated Report as the only addition to a statutorily required annual report or regulatory filing. This may be particularly attractive for organizations not currently producing a separate sustainability report that their stakeholders have come to expect.
- Modifying the sustainability report or, to the extent permitted given the organization’s regulatory environment, the management commentary by tailoring it in accordance with the Guiding Principles and Content Elements of Integrated Reporting.
- Adopting Integrated Reporting internally to underpin management information. This will provide business benefits while liaising with regulators either to introduce Integrated Reporting for all organizations or to introduce “safe harbours” for those who choose to innovate and experiment.

Key points in this section

The main benefits and challenges of Integrated Reporting are presented here from the following perspectives:

- reporting organizations;
- investors;
- policy-makers, regulators and standard-setters; and
- other stakeholders.

Reporting Organization Perspective

Benefits

Although Integrated Reporting is an emerging practice, a number of benefits have been identified in research to date, as summarized below:⁹

- reported information better aligned with investor needs;
- more accurate non-financial information available for data vendors;
- higher levels of trust with key stakeholders;
- better resource allocation decisions, including cost reductions;
- enhanced risk management;
- better identification of opportunities;
- greater engagement with investors and other stakeholders, including current and prospective employees which improves attraction and retention of skills;
- lower reputational risk;
- lower cost of, and better access to, capital because of improved disclosure; and
- development of a common language and greater collaboration across different functions within the organization.

Challenges

Regulation – Many components of Integrated Reporting are the subject of existing local regulations which vary between jurisdictions. Progress towards Integrated Reporting is, therefore, likely to evolve at different speeds in different countries. International consensus on the direction taken will be important, in particular for organizations operating across jurisdictions.

Directors’ duties – The fiduciary and other duties of those charged with governance are not consistent across all jurisdictions. Consequently, the focus of an Integrated Report may differ, in particular in relation to the users to whom the Integrated Report is addressed.

Directors’ liability – Because the scope of Integrated Reporting will cover new and evolving subjects, with a greater focus on the future, concerns about the liability of those charged with governance will need to be addressed. This might be through the adoption of globally accepted and harmonized “safe harbours” or a broad business judgement rule.

Commercial confidentiality – Organizations will need to provide a more strategic focus and, in some cases, information not currently subject to mandatory disclosure requirements in their Integrated Reports. They will, therefore, need to balance the benefits mentioned above with the desire to avoid disclosing competitive information.

Capacity building – Building knowledge and experience across the reporting system will be essential to long-term success. The IIRC Pilot Programme (see page 24 for more details) will help to build this capacity, with the learning captured and disseminated by the IIRC for all to access. An online forum will also be created to encourage knowledge sharing.

Information systems – Organizations will need to establish or strengthen information systems for capturing and aggregating information.

Organizations that are interested in experimenting with Integrated Reporting over the next two years are invited to join the IIRC Pilot Programme – see page 24 for more details.

Q9. From your perspective as a reporting organization:

- Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?
- Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

What Will Integrated Reporting Mean for Me? (continued)

Investor Perspective

Benefits

- **Fiduciary duty** – The provision of a more integrated information set will help those who invest on behalf of others, such as pension funds, to discharge their fiduciary duty by taking into account the full range of issues that affect organizational, and therefore financial, success and investment returns.
- **Future orientation and outlook** – Integrated Reporting puts greater emphasis on information about the future. This will assist investors in assessing the organization's ability to generate future cash flows.
- **Risks and opportunities** – Integrated Reports disclose key risks and opportunities as management views them. This will enable investors to assess the short-, medium- and long-term impact of these risks and opportunities across their investment portfolio.
- **Comparability** – Integrated Reporting provides a platform to help enhance sector-specific reporting models and to bring together information from different forms of reporting. This assists improved sectoral and geographical analysis and comparison of issues such as business ethics, management of conflicts of interests, and bribery and corruption where they are relevant and material to the organization.
- **Connected information** – Integrated Reporting makes clearer the linkages between the organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. It also better aligns externally reported information with information that management uses for decision making. This enables investors to assess more effectively the combined impact of the diverse factors that materially affect

an organization's long-term value.

- **Improved analysis** – Analysts, both sell-side and buy-side, will have access to an organization's most significant information in one concise and integrated form, with the opportunity to "drill down" to more detailed information where necessary. This can streamline the analytical process and help analysts to incorporate a wider set of KPIs and other factors into their analysis.
- **More effective decisions, better investment returns and more effective capital allocation** – Collectively, the above benefits will result in more effective investment decisions, better long-term investment returns and more effective capital allocation.

Challenges

- **Revised analytical techniques** – Analytical tools that incorporate a wide range of financial and non-financial factors are evolving. The IIRC Pilot Programme will work with investors to develop disclosures relevant for investment analysis.
- **Investment supply chain** – Many of the current compensation and incentive structures along the investment supply chain drive a focus on the short term. A wide range of steps are being taken by regulatory and non-regulatory actors to rebalance this focus. Integrated Reporting can support these efforts by taking into account the whole spectrum of factors that impact an organization's success and, therefore, its long-term investment returns.

Investors interested in developing integrated disclosures relevant for investment analysis are invited to join the IIRC Pilot Programme – see page 24 for more details.

Policy-maker, Regulator and Standard-setter Perspective

Benefits

- **More effective capital allocation** – The more meaningful communication brought about through Integrated Reporting will support more effective capital allocation across the economy generally and, to the extent that Integrated Reporting supports capital flowing to those organizations that are responding most effectively to future challenges, can encourage the investment necessary to respond to issues such as energy security, food scarcity and climate change.
- **Harmonization of approaches and reduced "red tape"** – Reporting is shaped by a patchwork of laws, regulations, standards, codes, guidance and stock exchange listing requirements, described in a recent report as "a jigsaw in pieces".¹⁰ Integrated Reporting offers a platform for policy-makers, regulators and standard-setters, working together, to:
 - integrate reporting requirements within a jurisdiction;
 - harmonize advances in reporting that have been achieved in different jurisdictions; and
 - approach new reporting issues on a consistent basis as they emerge across jurisdictions.
- **Economic and market stability** – The recent global financial crisis has made it clear that risks can develop, be harboured and be transmitted through market participants and practices that fall outside the traditionally prudentially regulated institutions. One important tool in addressing these risks is greater transparency of market participants, which Integrated Reporting can facilitate. This, linked with the better internal decision making and behaviours that Integrated Reporting encourages, as well as the longer-term perspectives that it enables, may well deliver lower volatility in markets. Moreover, it permits policy-makers and regulators to identify such risks as they emerge so that they can be dealt with in a timely way, thus adding to greater economic and market stability.

- **Stewardship of common resources** – Because of the broader perspective required by Integrated Reporting, both in terms of the resources and relationships that it takes into account and the longer timeframe over which value creation is considered, it leaves organizations better placed to act, and be more accountable, as stewards of the community's common resources, in particular human, natural and social capital.
- **Access to information** – Integrated Reporting, by providing decision-relevant information, can support effective action by policy-makers and regulators as users of that information.

Challenges

- **Revising legislation, regulation and standards** – Mechanisms for revising legislation, regulation and standards require leadership, political will, coordination, time, resources, consultation and due process. This is particularly so where proposed changes involve more than one subject area (e.g., environmental law and securities law), and more than one jurisdiction.
- **Liability and business confidentiality** – The scope of Integrated Reporting will cover new and evolving subjects and will have a more strategic focus. The resulting concerns of management, those charged with governance and assurance providers about liability, fiduciary duties and business confidentiality will need to be addressed.

Q9. From your perspective as an investor:

- Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**
- Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?**
- Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis? Why/why not?**

Q9. From your perspective as a policy-maker, regulator or standard-setter:

- Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**
- Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?**

What Will Integrated Reporting Mean for Me? (continued)

Other Perspectives

Civil Society

- **Alignment of sustainable issues** – Organizations that adopt Integrated Reporting will display their stewardship not only of financial capital, but also of human, natural, social and other capitals, which is likely to align with the interests of many civil society interest groups.
- **Stakeholder engagement** – Integrated Reporting's emphasis on stakeholder engagement is likely to result in greater consultation with civil society interest groups.
- **Supply chain** – Integrated Reporting will provide greater visibility of how an organization impacts on the stakeholder groups across its supply chain.
- **Focus on specific issues** – The integration of environmental and social issues with financial issues could result in a reduction in focus on some issues of concern to particular civil society interest groups. The IIRC is engaging with key civil society interest groups and will utilize existing guidelines, codes, etc. throughout the development of the Framework.

Employees

- **Future prospects** – Current and prospective employees will be able to gain an integrated perspective on the future prospects of their employer. They will also be better able to discern whether their employer's values are consistent with their own.
- **Connecting the organization** – Integrated reporting facilitates the breaking down of reporting silos and the introduction of integrated thinking. This allows employees

to gain a better understanding of how their performance links to the objectives of the organization and to identify how they contribute to the ability of the organization to create and sustain value over time.

Assurance providers

- **Independent assurance** – The independent audit of financial statements currently plays a critical role in the world's capital markets, and independent assurance of sustainability reports is recognized as best practice. It is therefore reasonable to expect that when an Integrated Report is an organization's primary report, investors and other stakeholders will want that report to be subject to independent assurance.
- **New techniques** – Some information in an Integrated Report may be more difficult to assure than information disclosed under traditional reporting frameworks. This will require the development of new techniques, standards and reporting mechanisms to support assurance on Integrated Reports.

Academics

- **Research** – As researchers, academics will have a strong role to play in the development of the initial Framework and in researching emerging topics as Integrated Reporting evolves over time.
- **Education** – As educators, academics will have a strong role to play in education and capacity building across the reporting system, which will be essential to Integrated Reporting's long-term success.

The IIRC Pilot Programme

The IIRC is conducting a two-year Pilot Programme, commencing in October 2011, to test and further develop the International Integrated Reporting Framework. Working as a network of peer-group organizations and investors with whom knowledge can be exchanged and experiences shared, the IIRC Pilot Programme aims to:

- encourage organizations to innovate in their reporting practices;
- inform the future evolution of reporting and investor practices; and
- drive convergence in international reporting guidance.

For more details and to express interest in participating, see www.theiirc.org/pilot

Q9. From your perspective as a key stakeholder:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

FUTURE DIRECTION

Key points in this section

- The development of Integrated Reporting will require a change in established thinking about decision making and reporting.
- Actions that the IIRC is planning include:
 - developing an Exposure Draft of the Framework;
 - working with others on emerging measurement and reporting practices;
 - outreach, encouraging organizations to adopt and contribute to the evolution of Integrated Reporting;
 - exploring opportunities for harmonizing reporting requirements within and across jurisdictions; and
 - consultation regarding the ongoing governance of Integrated Reporting.

The development of Integrated Reporting is designed to enhance and consolidate existing reporting practices. Through collaboration, consultation and experimentation, the IIRC plans to move towards a reporting framework that provides the information needed to assess organizational value in the 21st century.

There will be a period of transition.

- Some jurisdictions will introduce Integrated Reporting requirements ahead of others. This is the case in South Africa for example, where the Johannesburg Stock Exchange has introduced a listing requirement for companies to prepare, or publicly explain why they have not prepared, an Integrated Report.
- In other jurisdictions, organizations will experiment with Integrated Reporting within the existing reporting requirements. A number of organizations have already released Integrated Reports in this context. The IIRC Pilot Programme will facilitate further experimentation.

Developing an effective Framework and supporting mechanisms will require a collaborative effort from all those involved in the reporting system. The IIRC is seeking to encourage and facilitate that collaboration. Actions that the IIRC is currently planning relate to the following.

- **Pilot Programme** – Run a two-year Pilot Programme, commencing in October 2011 to test the proposals set out in this Discussion Paper and provide practical examples of Integrated Reporting. Companies, investors and others participating in the IIRC Pilot Programme will provide a key contribution to the Framework's development over the next two years (see page 24 for more details).
- **Framework** – Develop the International Integrated Reporting Framework on the basis of:
 - responses received to this Discussion Paper;
 - the insights emerging from the IIRC Pilot Programme;

- additional research conducted by the IIRC and others; and
- ongoing engagement with investors and other key stakeholders.

It is anticipated that an Exposure Draft of an International Integrated Reporting Framework will be published for comment in 2012. The intention is to ensure that the Framework has the scope and flexibility to support the future development of reporting for several decades, recognizing that it will need to be revised periodically to continue to meet the evolving needs of the market and society.

- **Measurement and reporting practices** – Monitor and, where appropriate, contribute to or potentially lead development of emerging measurement and reporting practices relevant to Integrated Reporting. This may include the development of techniques to enable those areas of business impact and interdependence that are currently treated as externalities to be better quantified and integrated into decisions and reporting – whether as risks and opportunities or as part of performance statements.
- **Outreach** – Conduct regional roundtables and other engagement and communication activities to raise awareness of Integrated Reporting among investors and other key stakeholders, and to encourage organizations to adopt and contribute to the evolution of Integrated Reporting.
- **Harmonization** – Explore with national, regional and global policy-makers, regulators and standard-setters, opportunities for harmonizing reporting requirements within and across jurisdictions, and help to develop a compatible regulatory landscape.
- **Governance** – Develop, through public consultation, institutional arrangements for the ongoing governance of Integrated Reporting.

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

(b) What priority should be afforded to each action? Why?

Q11. Do you have any other comments that you would like the IIRC to consider?

SUMMARY OF CONSULTATION QUESTIONS

The IIRC welcomes comments on all aspects of the Discussion Paper from all stakeholders, whether to express agreement or to recommend changes. Your answers to the Consultation Questions, and any other comments you would like to make, should be submitted to dpresponses@theiirc.org or online at www.theiirc.org. For the purpose of analysis, you are asked to identify the organization to which you belong and where it is located. All comments received will be considered a matter of public record and will be posted on www.theiirc.org. Comments should be submitted by Wednesday 14th December 2011.

The World has Changed – Reporting Must Too (page 4)

- Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?
- (b) Do you agree that this action should be international in scope? Why/why not?

Towards Integrated Reporting (page 6)

- Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

An International Integrated Reporting Framework (page 8)

- Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?
- Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?
- (b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Business Model and Value Creation (page 10)

- Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?
- Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

Guiding Principles (page 13)

- Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Content Elements (page 14)

- Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policy-makers, regulators and standard-setters – page 23, Other perspectives – page 24)

- Q9. From your perspective:
- (a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?
- (b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?
- (c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Future Direction (page 25)

- Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?
- (b) What priority should be afforded to each action? Why?
- Q11. Do you have any other comments that you would like the IIRC to consider?

ABOVE ALL, INTEGRATED REPORTING IS ABOUT GOOD BUSINESS

"In Tata Group the core belief is what we do must benefit society and this is why we support the development of Integrated Reporting. Sustainability must be in your DNA."

Ishaat Hussain, Finance Director, Tata Sons Limited

"Managing pension assets means that we have a responsibility towards millions of people to ensure they receive decent pensions; we therefore need to generate decent returns in a responsible manner over the long term. Integrated Reporting helps us get the full picture of a company's performance and make sound investment decisions."

Professor Angelien Kemna, Chief Investment Officer, APG and Chief Executive Officer, APG Asset Management

"The case for globally consistent financial reporting standards is well understood and accepted. It is appropriate to apply the same global approach to other aspects of corporate reporting. This initiative represents an important step on that journey."

Hans Hoogervorst, Chairman, International Accounting Standards Board

"It is about time that we stopped printing together financial and sustainability reports without any visible and concrete links between them."

Professor Nelson Carvalho, Universidade de São Paulo

"If you are a company committed to the long term, and one of your ambitions is to be trusted, you have no choice – Integrated Reporting is the way to communicate."

Jim Singh, Chief Financial Officer, Nestlé

"The goal of the IIRC is not to increase the reporting burden on companies and other entities. Rather, it is to help them and all their stakeholders make better resource allocation decisions. All of us have a stake in a sustainable society."

Göran Tidström, President, International Federation of Accountants

"Integrated Reporting builds on the practice of financial reporting, and environmental, social and governance reporting. It equips companies to manage their operations, brand and reputation strategically and to manage better any risks that may compromise the long-term sustainability of the business."

Professor Mervyn King, Deputy Chairman, IIRC and Chairman, GRI

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Endnotes

- Ocean Tomo (2010), "Ocean Tomo's Intangible Asset Market Value Study"
- Management commentary is also known as management discussion and analysis, business review and narrative reporting
- Sustainability reporting is also known as triple bottom line reporting, environmental, social and governance (ESG) reporting, corporate responsibility reporting and corporate social responsibility reporting
- See, for example, Boston College Carroll School of Management (2008), "The Use of Non-Financial Information: What Do Investors Want?", Arnold, V., Bedard, C., Phillips, J. and Sutton, S. (2009), "Understanding Professional and Non-Professional Investors' Information Requirements", Financial Services Council and The Australian Council of Superannuation Investors (2011), "ESG Reporting Guide for Australian Companies – Building The Foundation For Meaningful Reporting", Haigh, M. and Shapiro, M.A. (2011), "Financial Institutions: taking greenhouse gases into account" produced by the Climate Disclosure Standards Board for the Department for Environment, Food and Rural Affairs, UK
- UN Global Compact-Accenture (2010), "A New Era of Sustainability, UN Global Compact-Accenture CEO Study 2010"
- Bloomberg (2010), "The Sustainability Edge, Sustainability Report 2010"
- See, for example, Financial Reporting Review Panel and Accounting Standards Board (2011), "Cutting the Clutter. Combating clutter in an annual report"
- These sources include White, A.L (2010), "The Five Capitals of Integrated Reporting – Toward a Holistic Architecture for Corporate Disclosure" and Forum for the Future (2009), "The Five Capitals Model – a framework for sustainability"
- See, for example, Eccles, R.G. and Krzus, M.P. (2010), "One Report: Integrated Reporting for a Sustainable Strategy" and Hopwood, A.H., Unerman, J. and Fries, J. (2010), "Accounting for Sustainability: Practical Insights"
- CIMA, PwC and Tomorrow's Company (2011), "Tomorrow's Corporate Reporting – A critical system at risk"

INTEGRATED REPORTING <IR>

Your comments requested

Please join us in this unique effort to develop an overarching framework for Integrated Reporting by providing feedback on this Discussion Paper. Your answers to the Consultation Questions in this Discussion Paper, and any other comments you would like to make, should be submitted to dpresponses@theiirc.org or online at www.theiirc.org. For the purpose of analysis, you are asked to identify the organization to which you belong and where it is located. All comments received will be considered a matter of public record and will be posted on www.theiirc.org.

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